

# **EXHIBIT D**

CONWAYMACKENZIE

**Review of the Events and Decisions That Have Led to the Current  
Financial Crisis of the Employees Retirement System of the  
Government of Puerto Rico**

***Report***

*Prepared for*

**Employees Retirement System of Government of Puerto Rico and  
Government Development Bank for Puerto Rico, as Fiscal Agent of  
the Government of Puerto Rico**

*Submitted by*

**Conway MacKenzie, Inc.**

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## Section 1 – Scope of Assignment

On June 30, 2010, Conway MacKenzie, Inc. (“Conway MacKenzie”) was retained to prepare for the Employees Retirement System and the Government Development Bank for Puerto Rico, as fiscal agent, (the “GDB”) this report and to provide professional services in connection with its review of the Employees Retirement System (hereafter referred to as the “ERS,” or “System”) of the Government of Puerto Rico (the “Government”).

Conway MacKenzie was retained to identify, analyze, and summarize the key events and decisions that have created the current financial crisis of the ERS. Specifically, Conway MacKenzie was engaged to:

- Review historical decisions, transactions and other actions taken by the Board of Trustees of the ERS and the Board of Directors of the GDB, or any committees thereof, to evaluate the deterioration in the funding ratio, and other key indicators, of the ERS during the period of June 2004 to December 2008;
- Review financial projections, budgets, strategic plans and other information to assess the current financial situation of the ERS, including analysis and validation of key assumptions;
- Review the analyses supporting the issuance and utilization of funds related to the issuance of Senior Pension Funding Bonds by the ERS in fiscal year 2008; and
- Review compliance with certain laws and regulations applicable to the ERS, including the Fiscal Reform Law of 2006, by the Board of Trustees of the ERS and the Board of Directors, or any committees thereof, of GDB.

In undertaking this assignment, Conway MacKenzie made multiple site visits to both the ERS and GDB offices, located in Puerto Rico. Conway MacKenzie also interviewed, either telephonically or in-person, a number of key personnel from the ERS. Lastly, Conway MacKenzie reviewed and analyzed various documents including, but not limited to:

- Historical meeting minutes of the GDB Board of Directors (from 2005 through 2008)
- Historical meeting minutes of the ERS Board of Trustees (from 2004 through 2009)
- Actuarial valuation reports of the ERS
- Historical financial statements of the ERS
- Various financial analyses prepared by ERS personnel
- GDB transaction files related to the Pension Obligation Bonds (“POB”) transaction of the ERS
- Various presentations prepared by the ERS or outside parties

A complete list of documents relied upon is included as **Exhibit 1**.

## Section 2 – Findings

The Employees Retirement System of the Government of Puerto Rico is a trust funded by the contributions of active participants, governmental employers and proceeds from its investment portfolio to pay pensions and other post-employment benefits of government retirees. The current System was created by Act 447 of May 15, 1951 and, since its inception, has lacked proper planning and contribution levels.

The ERS is divided into three benefit structures and administers two separate retirement plans: a defined benefit plan and a defined contribution plan. Contributions to the ERS are set by legislation, and not determined by actuarial calculations. This has negatively impacted funding of the System due to statutorily required contributions being less than actuarially determined required contribution levels for years. The responsibility for the proper operation and administration of the System is vested with the Board of Trustees. As currently structured, the System has inadequate contribution levels relative to benefit obligation requirements, resulting in negative cash flows, a deteriorating asset base and declining funding ratios. Historically, the System has largely ignored many warning signs and addressed and cured its cash flow issues in various temporary ways including the sale of investments, obtaining loans from financial institutions and using Pension Obligation Bond proceeds.

Actions taken by the ERS to improve its fiscal health and reverse the increasing actuarial liability and deteriorating funding ratio have not been successful. If these problems are not properly addressed and the System is not restructured immediately, annual cash shortfalls will render the ERS insolvent in the near future. While the structure of the System has been fundamentally broken for years, certain concrete actions and events from 2004 to 2008 have exacerbated its problems.

### **Findings**

Upon the conclusion of our work, we believe the following factors have been fundamental in the deterioration in the ERS's financial health throughout its nearly 60 year history, and particularly during our review period which primarily focused on years 2004 and beyond:

- Inadequate Funding Procedures;
- Special Laws;
- Early Retirement Programs;
- Personal Loans; and
- 2008 Pension Obligation Bond Transactions.

Our findings indicate that the System has essentially been underfunded since its inception in 1951. The underfunding is a direct result of statutory funding requirements that fall below actuarially determined contribution rates. In addition to deficient annual contributions, investment returns and other recurring income levels have been insufficient to cover the System's annual benefit payments and other operating obligations, resulting in negative cash flows. As a result, the System has been forced to liquidate nearly all of its net plan assets to address cash flow shortfalls. In order to bolster the System's prospects of long-term solvency, an increase in the statutorily required contribution rates will be

necessary, and only sufficient to reverse the ERS fiscal crisis if done in combination with other actions, some of which are mentioned throughout this report.

We also noted that Special Laws, which grant incremental retirement benefits to participants beyond those which are provided for under the Act 447 and Act 1 benefit structures, have exacerbated the System's fiscal situation through the years. In fact, many Special Laws that were passed appear to have failed in securing long-term, viable funding sources to compensate for their economic burden to the ERS. As a result, the System has shouldered the obligation of funding many Special Law benefits resulting in significant past-due receivables as many public corporations and municipalities simply could not afford to finance these incremental obligations. Since Special Law benefits are not an explicit component of the ERS, we believe the underlying legislation should be revisited and analyzed to determine whether much needed structural changes can be enacted, which would serve to reduce or eliminate unfunded Special Law payments, thereby strengthening the fiscal position of the Government, its various municipality and public corporation employers, and most importantly, the ERS.

Another factor which has aggravated the System's fiscal situation is early retirement programs. These programs were promoted by the Government of Puerto Rico in order to reduce the size of the public workforce, thereby decreasing payroll costs, which account for a substantial portion of the Government's general budget. Based on available information provided, it appears that early retirement programs did not accomplish their intended goals. In addition, since many of these programs were not funded up-front by the sponsoring employers, the ERS continues to remain exposed to collection problems, as well as future cash flow deficits, assuming the System funds additional early retirement benefits for which it is unable to collect reimbursement. It is therefore important that any additional early retirement programs enacted be funded in advance by the sponsoring employer in order to minimize the potential negative cash flow impact on the ERS.

Furthermore, the decision by the ERS to increase the maximum loan balance for personal loans from \$5,000 to \$15,000 in 2007 has resulted in a significant cash drain to the System amounting to nearly \$600 million over the past four fiscal years. These negative cash flows have been funded by the System and necessitated the liquidation of plan assets. In addition, Conway MacKenzie did not come across any documented discussions or relevant documentation which indicated that the decision to increase the personal loan caps in 2007 was supported by a thorough analysis of its projected impacts on the System's financial health. As a result, we believe that both the System Administrator and Board of Trustees in office during 2007 may have failed to meet the requisite standards of due care and fiduciary duties in approving these changes.

Lastly, we believe that the POB transactions may have negatively impacted the ERS and the Government, in general. In analyzing management's decision to enter into the POB transaction, we found no basis for the initial assumption made that such a strategy would immediately improve the funded status of the ERS. In fact, the strategy has not improved the funded position of the System and, due to the negative arbitrage realized and fees paid as part of the POB transaction, actually worsened the funded position of the System. The short-term liquidity fix is costly and these costs may be realized for decades to come. In our opinion, the POB transaction accomplished little more than passing on, and increasing the complexity of, the burden of fixing the System's fundamental structural problems to future

administrations of the ERS. In addition, several warning signs, which suggested that the full implementation of the POB strategy would be difficult, if not impossible, were identified but ultimately downplayed or ignored by those responsible for making the decisions to enter into the POB transactions (ERS management, the ERS Board of Trustees, and the GDB Board of Directors in 2008). For these reasons, we believe the decision-makers may have failed to meet the standard of due care and other important fiduciary duties in approving such a transaction.

There is a very strong possibility that without immediate, dramatic and encompassing changes to the structure of the System, the aforementioned dynamics will result in the full depletion of the System's net assets in the near future, potentially as early as 2014 as indicated in the ERS's 2009 actuarial valuation report prepared by ERS' actuarial Milliman without the POB available funds and 2018 if using POB available funds.

### **Causes of Distress for the Employees Retirement System**

The following section provides a more thorough summary of Conway MacKenzie's findings and conclusions as it pertains to the previously mentioned factors which have been fundamental in the deterioration of the ERS.

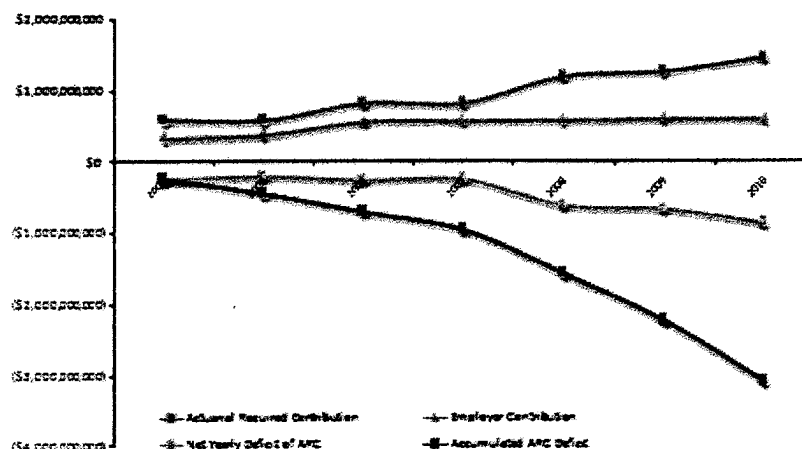
#### **Inadequate Funding Procedures**

The current employee and employer contribution rates paid to the System are statutorily determined and have not changed since 1990, despite a precipitous drop in the System's funding status and the net assets of the ERS. These contributions are significantly below both the Annual Required Contribution ("ARC"), as determined by the actuarial valuation reports, and the level required to meet benefit and other operating obligations of the System. In fact, the amounts of the annual employee and employer contributions have historically been insufficient to cover even new actuarial liabilities incurred on an annual basis. As a result, the funding ratio continues to deteriorate. The following chart depicts the significant difference between historical employer contributions to the System and the ARC during our review period.<sup>1</sup> As demonstrated below, during the 2004 – 2010 period, the ERS amassed an accumulated ARC deficit of nearly \$3.1 billion.

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<sup>1</sup> The data included in this graph was taken directly from the ERS's June 30, 2009 and 2005 Audited Financial Statements, as well as the ERS's June 30, 2009 Actuarial Valuation Report, as prepared by Milliman. Actual Employer Contribution for the year ended June 30, 2010 is an estimate and assumes contributions of 9.275% of expected payroll for the basic system benefits, plus contributions of \$149.9 million for special law pension benefits, plus contributions of \$42.7 million for early retirement incentives.

Historical Employer Contribution versus Actuarial Required Contribution  
for years ended June 30, 2004 to 2010



In addition, annual contributions and investment and other recurring income have not been sufficient to cover annual benefit payments and other operating obligations. As a result, the ERS is being forced to liquidate System assets in order to meet payment obligations. System assets are expected to continue to decline as negative cash flow (contributions less benefit payments) exceeds current and projected investment income. Simply put, the System is liquidating assets to meet its current obligations. The following chart highlights the anticipated cash flow shortfalls for plan years ended June 30, 2010 through 2020 under current laws, as well as the estimated declines in net plan assets through the same period.<sup>2</sup>

<sup>2</sup> The figures in this chart were obtained from the ERS's June 30, 2009 Actuarial Valuation Report, as prepared by Milliman. Certain key assumptions utilized in compiling this analysis are as follows:

- Estimated net plan assets at year-end assumes that the investment return assumption of 7.5% is met;
- Estimated payroll is assumed to grow 2.5% annually;
- Member and employer contributions were estimated to be 17.55% of estimated payroll for each plan year;
- The estimated benefit payments do not include amounts expected to be made to future participants, such as refund or contributions to terminated non-vested participants, disability benefits, death benefits, or retirement benefits due to service purchase, and thus are slightly understated;
- Administrative expenses are assumed to grow 2.5% annually,
- Contributions on behalf of and benefit payments to members of System 2000 are included in the table, and
- Estimated gross plan assets submitted by Milliman



(\$ millions)

Year Ended June 30	Estimated Payroll	Estimated Member and Employer Contributions	Estimated Benefit Payments and Administrative Expense	Net Cash Flow	Estimated Net Plan Assets at Year-End	Estimated Gross Plan Assets at Year-End
2010	\$4,293	\$753	\$1,181	(\$428)	\$1,546	\$4,554
2011	4,400	772	1,191	(419)	1,228	4,284
2012	4,510	792	1,210	(418)	887	3,996
2013	4,623	811	1,231	(420)	518	3,684
2014	4,739	832	1,258	(426)	115	3,342
2015	4,857	852	1,292	(440)	(333)	2,961
2016	4,978	874	1,330	(456)	(831)	2,534
2017	5,102	895	1,370	(475)	(1,385)	2,055
2018	5,230	918	1,415	(497)	(2,005)	1,517
2019	5,361	941	1,464	(523)	(2,697)	913
2020	5,495	964	1,513	(549)	(3,469)	236

In order to bolster the prospects of the System's long-term solvency, an increase in the statutorily required contribution rates will be necessary, but that alone will most likely not be sufficient. Conversely, decreases in ERS benefits could also serve to bridge the gap between the statutorily required contributions and the ARCs, thereby enhancing the ERS's long-term solvency prospects. However, reductions in benefit obligations are considered long-term corrections and will not address the System's immediate cash flow issues. While such changes are both straightforward and logical, they remain long overdue as numerous actuarial recommendations stressing the need to implement these changes have been submitted to the ERS for decades. Unfortunately, failure to address the mismatch between benefits earned and contributions made has now resulted in the near total elimination of net plan assets and put the System at the brink of not being able to make current benefit payments.

#### Special Laws

Special Laws, which are a series of post-employment benefits granted to ERS participants through enabling legislation passed by previous legislators and governors, provide incremental retirement benefits to participants beyond those which are provided for under the Act 447 and Act 1 benefit structures and include:

- Additional minimum pension benefits;
- Additional minimum death benefits;
- Ad-hoc cost-of-living adjustments (COLAS) provided in past years;
- Additional benefits due to death or disability for reasons specified in Act 127 (specified high-risk positions who died in line of work);
- Medical insurance plan contributions;
- Summer bonuses;
- Medication bonuses; and
- Christmas bonuses.

Many of the Special Laws appear to have been introduced and approved throughout the years by way of highly political processes, often with competing and conflicting goals relative to those which would serve to bolster the long-term viability of the ERS. Importantly, Special Law approvals also seem to have overlooked the importance of ensuring long-term, viable funding sources are available to

compensate for their economic burden. Ostensibly, these incremental benefits are funded on a pay-as-you-go basis from the General Fund or specific public employer entities of the Government and are therefore obligations which should not be funded by ERS assets. However, many public corporations and municipalities, which bear the responsibility of funding the Special Laws, simply cannot afford to finance these incremental obligations and as a result, have not paid the System the appropriations and have generated significant past-due receivables with the ERS. Specifically, as of June 30, 2010, ERS assets have been used to fund approximately \$92.5 million of Special Law obligations, for which various municipalities and public corporations are yet to reimburse the ERS.<sup>3</sup>

As of June 30, 2009, Special Laws accounted for nearly \$2.3 billion of the roughly \$19 billion in actuarial liabilities.<sup>4</sup> A summary of the costs of Special Laws for plan years ended June 30<sup>th</sup> 2004 – 2010 is as follows:<sup>5</sup>

(\$ in millions)

Special Laws	2004	2005	2006	2007	2008	2009	2010
Total Cost	\$163.20	\$201.60	\$245.80	\$232.30	\$261.30	\$272.50	\$272.40

Please refer to **Exhibit 3** for a detailed analysis of the cost of each Special Law to the Government for fiscal years ended June 30, 2004 – 2010.<sup>6</sup>

Special Law benefits play a large role in the fiscal situation plaguing both the Government's General Fund and the ERS. Stated frankly, we question how these Special Laws could have ever been passed with what appears to be such little attention to confirming that long-term, viable funding sources would be available to cover their costs and minimize their potential negative impacts on the System's cash flows and funding ratio. Because the Special Law benefits are not an explicit component of the ERS, we believe the underlying legislation should be revisited and analyzed to determine whether much needed structural changes can be enacted, which would serve to reduce or eliminate unfunded Special Law payments, thereby strengthening the fiscal position of the Government, its various municipality and public corporation employers, and most importantly, the ERS. Conway MacKenzie's scope of work did not include determining whether the various participating employers had the ability to fund Special Laws.

#### Early Retirement Programs

The Government of Puerto Rico began to promote early retirement programs in 1994 in order to reduce the size of the public workforce, thereby decreasing payroll costs, which account for a substantial portion of the general budget. Since 1994, nearly 20 early retirement programs have been implemented, at a total cost of approximately \$631 million.<sup>7</sup>

<sup>3</sup> Refer to Exhibit 2 for a summary of outstanding municipality and public corporation Special Law accounts receivable.

<sup>4</sup> Per ERS's June 30, 2009 Actuarial Valuation Report, as prepared by Milliman.

<sup>5</sup> This information was provided by Teresa Meaux Pereda, of the ERS.

<sup>6</sup> Ibid.

<sup>7</sup> This information was obtained from "Estudio Relacionado con los Programas de Retiro Temprano Aprobados desde el 2005 hasta el 2008, Propósito, Resultados y Recomendaciones, Volumen 2" published in March 2010.

Conway MacKenzie was provided with two studies prepared by The Government of Puerto Rico's Permanent Special Committee on Retirement Systems, which both appeared to indicate that the early retirement programs did not accomplish their intended goals of shrinking the size of the government workforce.

Because many of these programs were not funded up-front by the sponsoring employers, the ERS continues to remain exposed to collection problems, as well as future cash flow deficits, assuming the System funds additional early retirement benefits for which it is unable to collect reimbursement. Specifically, as of July 31, 2010, the ERS was owed approximately \$19.1 million<sup>8</sup> in past-due early retirement program costs by certain employers who did not remit their payments to the System in accordance with previously agreed upon payment plans. In total, the ERS currently has approximately \$80.5 million<sup>9</sup> in outstanding accounts receivable pertaining to early retirement programs. To the extent additional employers don't comply with previously agreed upon payment plans, the ERS's exposure to early retirement program expenses could continue to grow. While opining on the overall success or failure of any particular early retirement plan (as defined by the costs saved from payroll reductions versus the costs spent on early retirement benefits) was outside of the scope of our engagement, it is clear to us that early retirement programs have indeed had, and could continue to have, a negative cash flow impact on the ERS.

To this end, it is important that any additional early retirement programs enacted be funded in advance or have specific funding plans by the sponsoring employer in order to minimize the potential negative cash flow impact on the ERS.

#### Personal Loans

The ERS currently offers and administers a Personal Loan program to its plan members. Personal loans can be obtained by System participants for a variety of different reasons and can be taken for up to \$15,000.

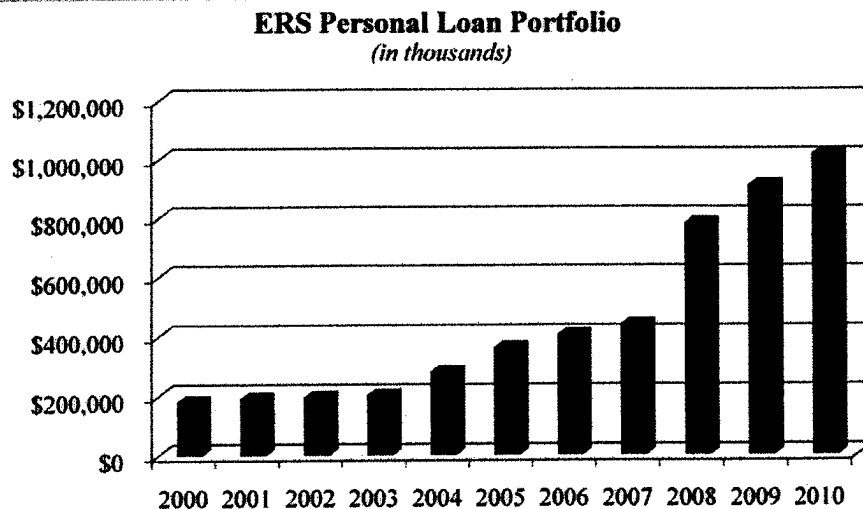
The decision by the ERS to increase the maximum loan balance for personal loans from \$5,000 to \$15,000 in 2007 has resulted in a significant cash drain to the System amounting to nearly \$600 million over the past four fiscal years. These negative cash flows have been funded by the System and necessitated the liquidation of ERS assets. As a result, the ERS's investment portfolio is now heavily weighted in illiquid assets (i.e. personal loans) and includes a large amount in receivables from participants that have questionable short term cash recovery. This overconcentration of illiquid assets has also accelerated the System's forecasted insolvency date by nearly two years. The chart below illustrates the significant growth in the ERS's personal loan portfolio as a result of the System's decision to increase the loan caps in 2007.<sup>10</sup>

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<sup>8</sup> This figure was obtained from the July 31, 2010 Early Retirement Accounts Receivable Schedule, provided by Cecile Tirado Soto, Controller of the ERS.

<sup>9</sup> Ibid.

<sup>10</sup> Figures referenced in this chart are in 000's and as of 6/30 for each respective year included. All figures were obtained from Luis Garcia Lopez, Director of Investment Officer at the ERS.



The potential impact of increasing the cap on personal loans from \$5,000 to \$15,000 on the System's liquidity profile and investment portfolio should have been thoroughly vetted before the ERS decided to amend the regulations pertaining to personal loans. Based on our review of the relevant documentation that was provided to us and interviews with various key employees of the ERS, it appears that appropriate due care was not exercised by the System's management and Board of Trustees in allowing this change in 2007. Specifically, we did not come across any documented discussions or other data which indicated that this change was supported by a thorough analysis of its projected impacts on the System's financial health. We were advised by ERS personnel that such analyses were, in fact, never prepared in connection with the decision to increase the personal loan caps in 2007.

Given the current liquidity crisis that the ERS is facing, we believe the System should immediately consider its options to reduce personal loan exposure, with the ultimate goal of reallocating these assets into more liquid and diversified investment options to ensure that funds will be available in the near-term to fund plan benefit expenses. While securitization of the personal loan portfolio could serve as one potential option of accomplishing this goal, the ERS may not be able to execute on a securitization due to legal implications.

#### 2008 Pension Obligation Bond Transactions

In addition to identifying the above factors which have negatively impacted the financial condition of the ERS, Conway MacKenzie also reviewed the 2008 Pension Obligation Bond transactions. The POBs were issued by the ERS with the intent of providing the System with increased assets to pay benefit obligations, reduce the unfunded accrued actuarial liability and generate additional revenue to the System through speculative arbitrage. In evaluating the POB transactions, we focused our attention on the following three questions:

1. Was the Pension Obligation Bond strategy reasonable?
2. Was it prudent to issue the Pension Obligation Bonds?
3. Were Pension Obligation Bond proceeds utilized appropriately?

As discussed in greater detail below, the POB transaction was speculative and subject to significant risks which do not appear to have been fully understood or vetted by the Board of Trustees prior to undertaking the bond issuance strategy in 2008. In addition, several early warning signs which existed prior to the issuance of the POBs appear to have been ignored by the ERS's Board of Trustees. Therefore it is our opinion that given the risks inherent in the transactions, several of which appear to have increased significantly in probability prior to the issuance of these bonds, the decisions to pursue and enter into Series A, Series B and Series C transactions were not prudent and may not comply with the general standards of fiduciary responsibilities of a Board of Trustees. Furthermore, our analyses indicate that a significant portion of the POB proceeds were not invested as originally anticipated.

#### **1. Was the Pension Obligation Bond strategy reasonable?**

In addressing this question, Conway MacKenzie evaluated the following:

- a. If issued, would the POB transaction resolve the System's liquidity needs?
- b. If issued, would the POB transaction increase the System's funded ratio?
- c. Were the likelihood of success and potential risk factors properly vetted?

##### Would the POB transaction resolve the system's liquidity needs?

Based upon its financial analysis, in an August 7, 2007 presentation to the ERS, Merrill Lynch highlighted that \$7.0 billion in bond proceeds were required to address the liquidity needs of the System.<sup>11</sup> The employer contributions, which solely secured the POB obligations, were forecasted to be sufficient to service the debt obligations related a \$7.0 billion POB issuance. The POB transaction was essentially a pull ahead of future employer contributions to fund short term cash flow requirements. As the defined benefit plan matured and its benefit obligations declined, future employer contributions would continue to be used to fund POB debt service.

Based on analysis and advice from its lead underwriter, Merrill Lynch, it appears that the GDB and ERS had reason to believe that the proposed \$7.0 billion POB transaction would be sufficient to resolve the System's short term liquidity crisis and meet the System's long-term cash flow requirements but the ERS and GDB should have known the \$3.0 billion of proceeds issued would not solve the long-term cash flow requirements.

##### Would the POB transaction increase the System's funded ratio?

As described in ERS Board of Trustee minutes and various presentations by the ERS, an underlying reason for the POB transaction was to increase the total assets of the System and therefore increase the funding ratio. Per ERS Board of Trustee minutes and various rating agency reports, the funding ratio of the System was expected to increase to approximately 70% with the issuance of \$7.0 billion of pension obligation bonds. However, the current funding ratio calculated by Milliman in the June 30, 2009 actuarial report is 9.7%, significantly less than 70% as communicated and estimated by the ERS during the POB issuance process. A primary reason for this significant variance is treatment of the

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<sup>11</sup> See Exhibit 4 for the complete Merrill Lynch Global Markets & Investment Banking Group presentation to the Employee Retirement System regarding Pension Funding Bonds: Debt Structure and Funding Analysis dated August 7, 2007.



bond debt liability in the funding calculation. The June 30, 2009 actuarial valuation report calculates the funding ratio based upon “net assets” in which the \$2.961 billion of bond debt is netted or subtracted from the total market value of assets, consistent with how prior funding ratios were determined. However, in calculating the estimated 70% funding ratio, the proposed \$7.0 billion of bond debt was not netted or subtracted from the total market value of assets to calculate net assets, essentially ignoring the liability.

Given the treatment by the System’s actuarial consultants, we do not believe it was reasonable to conclude that the POB transactions would positively impact the funded ratio immediately, as was originally communicated. We further question how those responsible for making the decision to enter into the POB transaction could have overlooked this fundamental flaw in the forecasted funding ratio’s computation methodology. Given the dramatic increase in the funding ratio presented to them, ERS management, the Board of Trustees and GDB Board of Directors had a responsibility to fully understand if the increase was reasonable and calculated consistently with prior period calculations. This lack of understanding falls short of what is expected from a director or a fiscal agent that is exercising prudence or acting within the general standards of reasonability.

Were the likelihood of success and potential risk factors properly vetted?

Given the financial leverage that it imposed upon the System, the proposed POB transaction was a very risky and speculative transaction, such that if certain assumptions failed to materialize, the System could be forced to bear higher costs and/or face increased liquidity requirements. Potential risks that existed when the POB transaction was undertaken included, among others, the risk of a failed or undersubscribed offering and the System’s potential inability to generate arbitrage on the POB proceeds. Both of these risks became realities as the POB transaction was not only undersubscribed, but it also failed to experience the planned investment returns, thereby resulting in negative arbitrage. It appears that numerous warning signs existed, foretelling difficulties with placing the bonds and realizing the returns required, yet action plans were not altered.

Conclusion

Based upon Merrill Lynch’s analyses, the ERS had the capacity to issue \$7.0 billion of pension obligation bonds. While it was a reasonable strategy to help address near term liquidity requirements, it was not likely to significantly improve the System’s funding status when calculated consistently with prior methodologies. In addition, the transaction was subject to significant risks among others, the risk of a failed or undersubscribed offering and the System’s potential inability to generate arbitrage on the POB proceeds. Based upon our review of supporting documents, it appears that these risks were not fully understood or vetted by the decision-makers prior to undertaking the bond issuance strategy and several of these risks actually materialized. Given the importance, magnitude and potential risks associated with a failed strategy, by not understanding or vetting the risks associated with the POB transaction, it appears the ERS management, the Board of Trustees and GDB Board of Directors did not exercise due care.

**2. Was it prudent to issue the Pension Obligation Bonds?**

The ERS and then lead underwriter, Merrill Lynch, pursued a \$7.0 billion POB issuance during 2007 but Merrill Lynch was unable to consummate the transaction due to a lackluster demand in the global market. UBS then replaced Merrill Lynch as underwriter and placed approximately \$3.0 billion of the bonds in the local Puerto Rico market. Given the System’s significant current and projected annual

net cash flow shortfalls, the transaction was not large enough to create arbitrage opportunities since a significant portion of the proceeds have been (and will continue to be) utilized to address annual cash flow shortfalls, as opposed to being invested for the long term. This means that the transaction has also resulted in costly annual interest expense for the ERS.

In determining if it was prudent to proceed with the POB transaction, emphasis should be placed on whether or not the ERS ignored early warning signs prior to issuing the POBs. Based upon our review of the information, we believe that the following early warning signs existed related to the POB issuance:

- a. It appears that Merrill Lynch's failed offering in the global marketplace during December 2007 should have been an indication that there was no viable market to raise the full \$7.0 billion necessary to comprehensively address the ERS' objectives.
- b. Series A, B and C of the POBs were all issued in the local Puerto Rican market by UBS after Merrill Lynch was unsuccessful in generating sufficient interest in the international market. A reasonable concern that should have been assessed thoroughly by the ERS management, Board of Trustees and GDB Board of Directors prior to moving forward on the POB transaction strategy with UBS was whether the local market was large enough to absorb a \$7.0 billion bond offering.
- c. In an ERS Board meeting held in May of 2008, an issue was raised that the "market has deteriorated around 35 basis points since January 2008" (when the first series of bonds were placed) and that "this represented a substantial difference in interest rates of the bonds, making it more expensive to obtain financing."<sup>12</sup>
- d. By June 2008 there were also signs that the stock market was deteriorating, which should have signaled to the ERS that its arbitrage goals were jeopardized.

### Conclusion

Based upon advice and analysis from Merrill Lynch, the ERS believed that at least a \$7.0 billion POB issuance was required to resolve the System's liquidity needs. Although POB proceeds of less than \$7.0 billion would assist the System by improving liquidity in the short term and extending the date by which it would deplete its assets, they did not provide a permanent solution to the System's problems and actually harmed the System because negative arbitrage was realized. The parties responsible for the oversight and administration of the ERS had a fiduciary responsibility to ensure market conditions were supportive of issuing at least the full \$7.0 billion transaction required to solve the System's financial crisis before proceeding with the transaction.

It is Conway MacKenzie's opinion that several warning signs existed concerning market conditions, principally Merrill Lynch's inability to issue the POBs in the global market, that should have given ERS management, Board of Trustees and GDB Board of Directors probable cause to either postpone the bond transaction or request additional due diligence be performed.

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<sup>12</sup> Based on the ERS Board of Trustees meeting minutes dated May 27, 2008.

Additionally, we believe that by June 2008 it should have been apparent to the decision-makers and their advisors, that it was very unlikely that the incremental \$5.5 billion in POB issuances required to reach the full \$7.0 billion could be raised given deteriorating market conditions.

For these reasons, it is our opinion that the decisions made by the governing boards of the ERS and GDB to pursue and enter into Series A, Series B and Series C transactions were not prudent given the risks inherent in the transactions, several of which risks appear to have increased significantly in probability prior to the issuance of these bonds.

### **3. Were the Pension Obligation Bond proceeds utilized appropriately?**

Two objectives of the POB issuance were to raise funds to cover the System's operating expenses (cash flow objective) and to generate a profit (arbitrage objective). In determining whether the POB proceeds were utilized in accordance with these objectives, we note following:

- Of the \$1.6 billion raised from Series A, approximately \$937 million was transferred to Citibank which was eventually invested in various stocks and bonds. The balance of \$642 million in Series A proceeds were utilized to pay closing costs, fund debt service reserves and pay the Department of Treasury for overdrafts.
- Of the combined \$1.4 billion raised from Series B and C, approximately \$1.3 billion was transferred to a GDB account, where it was held in cash. Since 2008, \$564 million of Series B and C proceeds have been used to cover the System's operating cash shortfalls and fund pension liabilities. As such, only approximately \$737 million remains in the GDB cash account as of June 30, 2010.

### **Conclusion**

The notion that the POB transaction would generate arbitrage opportunities for the System was inherently flawed based on the current liquidity needs of the System. In fact, the POB transaction has and will continue to cost the System money, as short-term cash flow problems continue to require the use of the POB proceeds to fund current expenses of the System. Simply put, the ERS cannot generate investment returns on POB proceeds that are used to fund System expenses, as opposed to being invested. For this reason, the POB issuance is currently costing the ERS more than what it is actually earning on invested proceeds. Our findings indicate this occurred because ERS management and Board of Trustees ignored market conditions and were subsequently constrained and blinded by the necessity to utilize cash proceeds to fund cash requirements of the System. This lack of understanding is not reasonable any may not fall within the general standards of fiduciary responsibilities expected by a Board of Trustees.

### **Overall Conclusion on POB Transaction Review**

In analyzing management's decision to enter into the POB transaction, we found no basis for the initial assumption made that such a strategy would improve the funded status of the ERS. The treatment of bond obligations in the calculation of the UAAL by the System's actuarial consultants appears to support the practical reality that the incurrence of additional debt to increase plan assets should have little



effect on the funded status of a pension plan in the short term. If the bond obligations could be excluded from the calculation of net assets or otherwise in the UAAL, we would have expected the ERS to oppose the calculation by Milliman in the System's June 30, 2009 actuarial valuation report. We did not come across any information to suggest there was a disagreement. This could imply a lack of understanding of the true impacts of the bond transaction on the ERS by ERS management, the Board of Trustees and GDB Board of Directors when they made the decision to enter into the POB transaction.

Perhaps even more concerning in our analysis of the decision to enter into the POB transaction is the decision to move forward with the transaction in light of the many warning signs that existed, which suggested full implementation of the strategy would be difficult, if not impossible.

The successful execution of the POB transaction was dependent on certain risks not materializing, primarily the risk that the market would be unable to absorb the full \$7.0 billion issuance. Consummating a transaction of significantly less than \$7.0 billion would merely serve as an expensive, temporary measure to address the System's liquidity issues, postponing for some period of time the date of the ERS's eventual insolvency. For this reason, the POB transaction resulted in the flawed execution of a failed strategy.

The POB transaction has negatively impacted the ERS and the Government, in general. Rather than addressing the System's long-term funding problems, the \$3.0 billion POB transaction merely provided a short-term temporary measure to address the System's liquidity needs, as it was not large enough to create arbitrage opportunities. It did nothing to improve the funded position of the System and due to the negative arbitrage realized and fees paid as part of the POB transaction, actually worsened the funded position of the System. The short-term liquidity fix is costly and these costs may be realized for decades to come. In our opinion, the POB transaction accomplished little more than passing on, and increasing the complexity of, the burden of fixing the System's fundamental structural problems to future administrations of the ERS.

Lastly, throughout the review process, it was clear to us that certain critical decisions, or lack thereof, made by those responsible for the ERS's oversight and management have negatively impacted the ERS and resulted in further deterioration of the System's liquidity profile and funding status. Furthermore, we believe that certain actions and omissions of the ERS Board of Trustees, GDB Board of Directors and ERS management during the POB decision making process were not reasonable and potentially flawed. As such, further investigation into the POB decision-making process should be pursued by the appropriate authorities.

#### **Evaluation of Past Management Practices of the ERS**

While the combination of Act 447 benefit arrangements, Special Laws, and historically inadequate funding procedures have resulted in significant deterioration of the ERS's funding ratio throughout its near 60 year history, certain recent decisions made by those responsible for the management and oversight of the ERS have exacerbated this issue.

In this section of the report, we focus on the evaluation of certain actions that were taken by the ERS's management during the 2004 – 2008 review periods, namely:

- The issuance of the Pension Obligation Bonds;
- Decisions to increase the ERS's personal loan portfolio; and
- Accounts receivable collection efforts.

#### The Issuance of the Pension Obligation Bonds

In analyzing management's decision to enter into the POB transaction, we question the initial assumption made that such a strategy would improve the funded status of the System. The treatment of bond obligations in the calculation of the UAAL by the actuaries Milliman and Buck Consultants appear to support the practical reality that the incurrence of additional debt to increase assets should have little effect on the funded status of a pension plan in the short term. If the bond obligations could be excluded from the calculation of net assets or otherwise in the UAAL, we would have expected the ERS to oppose the calculation by Milliman in the System's June 30, 2009 actuarial valuation report. We did not come across any information to suggest there was a disagreement. This could imply a lack of understanding of the true impacts of the bond transaction on the System by the parties that made the decision to enter into the POB transaction.

Perhaps even more concerning in our analysis of the decision to enter into the POB transaction is the decision to move forward with the transaction in light of the many warning signs that existed suggesting full implementation of the strategy would be difficult if not impossible. The successful execution of the POB transaction was dependent on the assumption that the market would be able to absorb the full \$7.0 billion issuance, since consummating a transaction of significantly less than \$7.0 billion would merely serve as an expensive, temporary solution to the System's liquidity issues, further postponing the date of the ERS's eventual insolvency.

Based on our review of the relevant ERS and GDB POB transaction working paper files, which include various meeting minutes of the ERS's Board of Trustees and the GDB's Board of Directors, it does not appear that this risk was properly considered or addressed by the various Boards. Specifically, in proceeding forward with the POB issuance just after Merrill Lynch's failed attempts to close the originally contemplated transaction, the decision-makers ignored a major warning sign which indicated that the requisite level of demand did not exist for the ERS's planned \$7.0 billion POB issuance. Given a successful transaction required issuance of at least \$7.0 billion, ERS management, ERS Board of Trustees and GDB Board of Directors had a duty to thoroughly understand the risks associated with not achieving at least \$7.0B of POB proceeds.

The POB transaction has negatively impacted the ERS and the Government, in general. Rather than addressing the System's long-term funding problems, the POB transaction merely provided a short-term temporary measure to address the System's liquidity needs. This short-term measure is pricey and its costs may be realized for decades to come. In our opinion, the POB transaction accomplished little more than passing on, and increasing the complexity of, the burden of fixing the System's fundamental structural problems to future administrations of the ERS. We also believe that certain actions and omissions of the Board of Trustees, GDB Board of Directors and ERS management during the POB decision making process were not reasonable and potentially flawed. As such, Conway MacKenzie

recommends that further investigation into the POB decision-making process should be pursued by the appropriate authorities.

#### Decisions to Increase the ERS's Personal Loan Portfolio

As mentioned more thoroughly elsewhere in this report, the decision by the ERS to increase the maximum loan balance for personal loans from \$5,000 to \$15,000 in 2007 has resulted in a significant cash drain to the System amounting to nearly \$600 million over the past four fiscal years. These negative cash flows have been funded by the System and necessitated the liquidation of ERS assets. As a result, the ERS's investment portfolio is now heavily weighted in illiquid assets (i.e. personal loans) and includes a large amount in receivables from participants that have questionable short term cash recovery. This overconcentration of illiquid assets has also accelerated the System's forecasted insolvency date by nearly two years.

The potential impact of increasing the cap on personal loans from \$5,000 to \$15,000 on the System's liquidity profile and investment portfolio should have been thoroughly vetted before the ERS decided to amend the regulations pertaining to personal loans. Based on our review of the relevant documentation that was provided to us, including the 2007 ERS Board of Trustee minutes, and interviews with various key employees of the ERS, it appears that such due care was not used by the System Administrator in supporting this change or by the Board of Trustees in approving this change. Specifically, we did not come across any documented discussions or other data which indicated that this change was supported by a thorough analysis of its projected impacts on the System's financial health and were advised by key ERS personnel that such analyses were, in fact, never prepared in connection with the decision to increase the personal loan caps in 2007. Approving such a decision without supporting analyses demonstrates lack of fiduciary responsibility by ERS management and the Board of Trustees.

#### Accounts Receivable Collection Efforts

Based on interviews conducted with current and former ERS personnel, Conway MacKenzie was informed that ERS invoices were not being issued on a timely basis, and in certain instances, were not being issued at all to certain employers who participated in the System prior to 2005. When this was discovered, the prior ERS Administration put forth significant extra effort in cleaning up, monitoring and managing the invoicing and collection process. Additionally, the ERS vigorously arranged payment plans for delinquent municipalities and corporations to further enhance the collections process during 2007. The lax management of account receivable balances by the Administration prior to 2005 is an area that has negatively impacted the ERS. Conway MacKenzie was also informed that certain corporations and municipalities have not been remitting both employer and (withheld) employee contributions to the ERS. Upon further investigation by the System's accountants, it was determined that these contributions were used by certain participating employers to cover their own cash shortfalls or for other unspecified reasons. While investigating the use of these proceeds falls outside of the scope of Conway MacKenzie's assignment, this is still an area of concern, particularly as it relates to employee withholdings.

### **Lack of Proper and Accurate Record Keeping**

#### **Mesirow Report**

Conway MacKenzie learned through various interviews and by review of various POB documents that Mesirow Financial ("Mesirow") acted as the financial advisor to the GDB for the POB transaction. We were also advised by ERS personnel that Mesirow may have issued a report or correspondence expressing its concerns or an adverse position regarding the POB transaction. A physical or electronic copy of such report or position was not included in either ERS or GDB documents provided. Conway MacKenzie attempted to obtain a copy of Mesirow's report or position on the POB transaction through Luis Garcia (Director of Investments at the ERS), but was unsuccessful. When contacted by Luis Garcia, Mesirow responded that all information requests relating to the POB transaction should be channeled to Mesirow's legal department. The GDB sent a formal request for such information to Mesirow's Associate General Counsel on September 14, 2010. As of the date that this report was published, we had not obtained any of the requested information from Mesirow.

Given the potential implications which Mesirow's report or position on the feasibility of the POB transaction may have, we strongly encourage the GDB to review copies of both Mesirow's report and their working papers related to the POB transaction. If Mesirow did, in fact, raise concerns regarding the POB transaction that were communicated to its client, the GDB, reasons why the GDB Board of Directors and/or ERS Board of Trustees did not act on such concerns and advice from the advisor should be investigated to determine whether a lack of due care exists.

#### **GDB Minutes**

During Conway MacKenzie's review of GDB files related to the POB transaction, including Board of Director and Executive Committee meeting minutes, we noted that numerous GDB meeting minutes during the review period of 2004 – 2008 were either missing or incomplete. As such, we were unable to trace certain discussion threads or validate the timing of certain decisions made by the Board of Directors and/or Executive Committee which could have assisted us in verifying whether certain issues were identified or raised within the GDB organization, either prior to or during the issuance of Series B and C.

Section 107 of the GDB Board by-laws states that, "The Secretary of the Board shall issue calls for all regular meetings, shall keep minutes of all meetings, shall be custodian of the minute books and the Seal of the Bank and shall perform such other duties as are incident of his office or properly required of him by the Board of Directors who may also appoint one or more Assistant Secretaries to perform such duties as the Board may prescribe..."

Given the poor condition of the GDB Board of Director and Executive Committee meeting minutes, an investigation should be conducted to evaluate the process and determine who was responsible for the lack proper record keeping. In addition to the individuals responsible for record keeping, former Board of Directors and Executive Committee members should be questioned as to their knowledge of the situation. Current GDB management is aware and has taken remedial actions. Accordingly, we were informed by General Counsel of the GDB that the GDB has made referrals for further investigation to the

Department of Justice, the Government Ethic's Office and the Office of the Comptroller regarding their findings with respect to poor record keeping by the former Secretary of the GDB Board of Directors. We strongly encourage the proper authorities to conduct further investigations as it relates to the state of record keeping by the former GDB Board of Directors.



### Section 3 – Summary of Conclusions

The following table summarizes Conway MacKenzie findings, illustrates decision-makers, officers and directors responsible for the findings during the analyzed period and provides certain recommendations about the System:

Factors that led to the Financial Crisis	Findings	Responsible Decision-Makers, Officers and Directors	Recommendations
<b>Inadequate Funding Procedures</b>	Failure to address at all from 2000-2008 funding status of the System after actions taken in year 1999 to close the defined benefit plans	ERS Board of Trustees and ERS management during relevant period	An increase in the statutory contribution rates and decrease in ERS benefit obligations is necessary
<b>Special Laws</b>	Enactment of special laws without long-term viable funding sources introduced and approved by way of highly political process	Parties associated with the enactment of Special Laws, specifically Act No. 524 of 2004, Act No. 144 of 2005 and Act No. 35 of 2007 and ERS management	Reduce or eliminate special law payments
<b>Early Retirement Programs</b>	Promotion of early retirement programs that were not funded up front by sponsoring employer	Parties associated with the enactment of early retirement programs and ERS management	Any additional early retirement program must be funded in advance or have specific funding plans by the sponsoring employer
<b>Personal Loans</b>	Increase in the maximum loan balance for personal loans resulted in a significant cash drain, as a result the ERS investment portfolio is heavily weighted in illiquid assets	Juan Cancel Alegria (ERS), Alfredo Salazar (GDB), Jorge Irizarry (GSB), Other select individuals from ERS management and ERS Board of Trustees as identified in Exhibit 4	The ERS should immediately consider alternatives to reduce personal loan exposure

Factors that led to the Financial Crisis	Findings	Responsible Decision-Makers, Officers and Directors	Recommendations
<b>2008 Pension Obligation Bond Transactions</b>	The \$3.0 billion POB transaction was inherently flawed, misconceived and speculative as a mechanism to improve the System's funded ratio. It merely provided a short-term temporary cash measure which blindly guided decision-makers despite many warning signs. The negative arbitrage and fees paid actually worsened the funding position	Alfredo Salazar (GDB), Jorge Irizarry (GDB), Juan Cancel Alegria (ERS), Harold Gonzalez (ERS), Minia Gonzalez (ERS), Other select individuals from ERS management, ERS Board of Trustees and GDB Board of Directors as identified in <b>Exhibit 4</b>	Due to lack of care demonstrated by the decision-makers, further investigation is warranted

## List of Exhibits

- |           |   |   |
|-----------|---|---|
| Exhibit 1 | - | List of Documents Relied Upon   |
| Exhibit 2 | - | Summary of Outstanding Municipality and Public Corporation Special Law<br>Accounts Receivable as of June 30, 2010 |
| Exhibit 3 | - | Detailed Cost Analysis by Special Law by Year (2004 – 2010)   |
| Exhibit 4 | - | List of Decision-makers, Officers and Directors   |



# Exhibit 1

## Exhibit 1

### Documents Relied Upon

- 1 2003-2004 to 2009-2010.xls
- 2 2007-08 Pension Funding Bonds Debt Structure and Funding Analysis.pdf
- 3 2010-02 ERS General Information.pdf
- 4 Act 11 Amendment-TRS-English.pdf
- 5 Act 34 Amendment-TRS-English.pdf
- 6 Act 35 of 2007.pdf
- 7 Act 447-ERS-English.pdf
- 8 Act 70 of 2010.pdf
- 9 Act 70 Regulation.pdf
- 10 Act 91-TRS-English.pdf
- 11 Actuarial Study in Respect to Active Members as of June 30, 1975 of the Retirement System of the Government of Puerto Rico and Its Instrumentalities, and Supplementary Comments (prepared by A. Estrella and C.J. Nesbitt) dated June 20, 1977
- 12 Actuarial Valuation 2005.pdf
- 13 Actuarial Valuation 2007.pdf
- 14 Actuarial Valuation 2009.pdf
- 15 Actuarial Valuation-ERS-2009-06-03.pdf
- 16 Actuarial Valuation-JRS-2009-06-03.pdf
- 17 Actuarial Valuation-TRS-2009-06-03.pdf
- 18 acuerdos11AGOSTO.xls
- 19 Alternate Allocation Scenario Comparison for Administrative Resolution Num. 2008-17
- 20 America's Prison Hell is a Little Slice of Heaven.pdf
- 21 approved laws.pdf
- 22 ASR-General Information-Actuarial Overview-ERS-JRS-TRS- 2009-09-21-English.pdf
- 23 ASR-Historical Presentation-JRS-2010-English.pdf
- 24 ASR-Retirement System Overview-2010-03-12-Spanish.pdf
- 25 Caribbean Business-2010-04-01-The Employee Retirement System is bankrupt-by Carlos Marquez.pdf
- 26 Cash Flows Statements.xls
- 27 Cashflow shortfall.pdf
- 28 cashflow2011proyeccion.xls
- 29 Chapter 7 - The Economy of Puerto Rico.pdf
- 30 Comision Reforma Retiro-Resource Library-v2010-05-25.xlsx
- 31 Comunicado de Prensa-2010-03-12 Spanish.pdf
- 32 Contact List-ASR-TRS.pdf
- 33 Contact List-ASR-TRS.xlsx
- 34 Contact List-Reform Commission Members-Español.doc
- 35 Employees Retirement System of the Government of the Commonwealth of Puerto Rico (ERS): Covered Payroll Outlook (2008-2059)
- 36 Enmiendas por decadas Sistema de Retiro.doc
- 37 EnnisKnupp-Asset Liability Study-Completion Ratio-2010-01-English.pdf
- 38 ERS 1989-2009.xls
- 39 ERS Board of Trustee By-Laws
- 40 ERS Board of Trustee meeting minutes (2004 - 2009) - various files
- 41 ERS Functional Organization Chart
- 42 ERS Position Papers for Laws 35, 144, and 524
- 43 ERS-JRS-TRS-Executive Summaries-English-2010.pdf
- 44 EST FIN ELA 2009-2010 (3).xls
- 45 Estudio Relacionado con los Programas de Retiro Temprano Aprobados desde el 2005 hasta el 2008, Proposito, Resultados y Recomendaciones Vol. 2.pdf
- 46 Financial Statements-ERS-2007-06-30.pdf
- 47 Financial Statements-ERS-2009-06-30.pdf
- 48 Fiscal Reform Law of 2006(A-0103-2006).pdf
- 49 FS 2007.pdf
- 50 FS 2008.pdf
- 51 FS 2009.pdf
- 52 GDB Board of Directors By-Laws
- 53 GDB Board of Directors Meetings, 2004 (Draft) files
- 54 GDB Board of Directors Meetings, 2005 (Final) files
- 55 GDB Board of Directors Meetings, 2006-2007 (Final) files
- 56 GDB Board of Directors Meetings, 2006-2008 (Draft) files

## Exhibit 1

### Documents Relied Upon

- 57 GDB Board of Directors Meetings, 2007 (Final) files
- 58 GDB Board of Directors Meetings, 2008-2009 (Draft) files
- 59 GDB Bond Documents, Series A - File I (various files)
- 60 GDB Bond Documents, Series A - File II (various files)
- 61 GDB Bond Documents, Series A - File III (various files)
- 62 GDB Bond Documents, Series A - File IV - Cost of Issuance (various files)
- 63 GDB Bond Documents, Series B - Cost of Issuance (various files)
- 64 GDB Bond Documents, Series B - File I (various files)
- 65 GDB Bond Documents, Series B - File II (various files)
- 66 GDB Bond Documents, Series C - File I (various files)
- 67 GDB Bond Documents, Series C - File II - Cost of Issuance (various files)
- 68 GDB Executive Committee Meetings, 2006 (Final) files
- 69 GDB Executive Committee Meetings, 2006-2008 (Draft) files
- 70 GDB Org Chart.ppt
- 71 Historicos Flujos de Efectivo 2005 a 2009 eng.xls
- 72 Internal Financial Statements.xls
- 73 Investment Company Act of 1940.pdf
- 74 Investment Consultants.doc
- 75 June 30, 2010 Unaudited Financial Statements
- 76 June 30, 2010 Unaudited Financial Statements
- 77 KITJUNTAJUNIO2010.xls
- 78 Laws and Early Retirement Programs (8-23-10).doc
- 79 Letter address to the ERS\* Board of Trustees from Woodward and Fondiller (a division of Martin E. Segal Co., Inc) dated June 29, 1971
- 80 Letter from John Thomas Enger of UBS Consulting Services of Puerto Rico to Jorge Irizarry Herrans dated June 4, 2008
- 81 LOAN OVERVIEW JUNE 2009.ppt
- 82 Memo to the Reform Commission General Overview-2010-English.pdf
- 83 Milliman Law 70 Analysis.pdf
- 84 Milliman-Review of Pension Funding and Solvency Issues-2010-04-06-English.pdf
- 85 Milliman-Review of Pension Funding and Solvency Issues-2010-05-11-English.ppt
- 86 NASRA-Public Fund Survey-Summary\_of\_Findings\_FY08-by Keith Brainard-2009-10.pdf
- 87 NASRA-SustainabilityChanges-2010-05-24.pdf
- 88 NASRA-sustainabilitymeasures-2009-12-22.pdf
- 89 OE-2010-10 Orden Ejecutiva Sistema de Retiro-Spanish.pdf
- 90 Pew Center-Promises with a Price-Public Sector Retirement Benefits-2009-11-24.pdf
- 91 Pew Center-The trillion dollar gap-2010-02-18.pdf
- 92 Programas de Retiro Temprano Aprobados desde el 1994 hasta el 2005, Proposito, Resultados y Recomendaciones.pdf
- 93 Related to Series A, B and C Issues.xls
- 94 Related to Telefonica de PR Dividends and Sale of Shares.xls
- 95 Report to the Governor's Special Commission on Retirement System (submitted by Aon Consulting, Inc.) dated August 2010
- 96 Return Summary.pptx
- 97 S&P-Public Finance-US States OPEB Liabilities-2009-06-03.pdf
- 98 Santander Credit Line.xls
- 99 Senior Pension Funding Bond Series A - \$1.59B.pdf
- 100 Senior Pension Funding Bond Series B - \$1.06B.pdf
- 101 Senior Pension Funding Bond Series C - \$300M.pdf
- 102 Sistema De Retiro De Los Empleados Del Gobierno: Origen, Deficit Actuarial y Recomendaciones (CEPSR report) dated March 2009
- 103 SistemaDeRetiroDeLosEmpleadosDelGobierno.doc
- 104 Social Security Reform-National Commission-by Greenspan-1983-01.pdf
- 105 Special Commission on Retirement Systems Reform.pdf
- 106 The Puerto Rico Government Employees' and Judiciary Retirement Systems Statement of Investment Policy and Performance Objectives (dated April 6, 2010)
- 107 TIMEDEPOSTJUNTA.xls
- 108 UBS Consulting Services of Puerto Rico Presentation to the Puerto Rico Employee's Retirement System (various dates)
- 109 UBS in PR Pension\_07-27-09 Bloomberg article.pdf
- 110 UBS in Puerto Rico Pension Gets Fee Bonanza Seen as Conflicted (Bloomberg article) dated February 27, 2009
- 111 Univ Minnesota Law School-Public Pension Plan Reform-The Legal Framework by Amy B. Monahan.pdf

# Exhibit 2

**Exhibit 2**  
**Summary of Outstanding Municipality Special Law Accounts Receivable**  
**As of June 30, 2010**

Municipality	#	2002-2007	2007-2008	2008-2009	2009-2010	COLA Cost Balance in Prior Years	Total
ADJUNTAS	301	\$ -	\$ -	\$ -	\$ -	\$ -	76,951
AGUADA	302	-	-	-	-	-	-
AGUADILLA	303	-	-	-	-	-	-
AGUAS BUENAS	304	-	-	-	-	3,576	3,576
AIBONITO	305	-	-	-	-	95,240	95,240
ANASCO	306	-	-	-	-	-	-
ARECIBO	307	-	-	-	-	-	-
ARROYO	308	-	-	-	-	-	-
BARCELONETA	309	-	-	-	-	2,531	2,531
BARRANQUITAS	310	-	-	-	-	243,979	243,979
BAYAMON	311	122,866	-	-	-	-	122,866
CABO ROJO	312	-	-	-	-	149,829	149,829
CAGUAS	313	-	-	-	-	562,324	562,324
CAMUY	314	-	-	4,227	-	136,300	140,527
CANOVANAS	378	-	-	-	-	3,211	3,211
CAROLINA	315	-	-	-	-	-	-
CATAÑO	316	-	-	104,316	-	101,028	205,344
CAYEY	317	-	-	-	-	202,861	202,861
CEIBA	318	-	-	-	-	71,233	71,233
CIALES	319	-	5,779	59,665	-	67,572	133,015
CIDRA	320	-	-	-	-	-	-
COAMO	321	-	-	92,657	-	107,689	200,345
COMERIO	322	-	-	-	-	35,105	35,105
COROZAL	323	-	-	-	-	74,797	74,797
CULEBRA	324	-	-	-	-	-	-
DORADO	325	-	-	-	-	97,445	97,445
FAJARDO	326	-	-	-	-	-	-
FLORIDA	377	-	-	-	-	5,567	5,567
GUANICA	327	-	-	-	-	5,429	5,429
GUAYAMA	328	-	-	-	-	18,407	18,407
GUAYANILLA	329	-	-	80,848	-	104,573	185,421
GUAYNABO	330	-	-	-	-	-	-
GURABO	331	-	-	-	-	69,920	69,920
HATILLO	332	-	-	-	-	-	-
HORMIGUEROS	333	-	-	-	-	-	-
HUMACAO	334	-	-	-	-	226,540	226,540
ISABELA	335	-	-	-	-	-	-
JAYUYA	336	-	-	-	-	-	-
JUANA DIAZ	337	-	-	-	-	-	-
JUNCOS	338	-	-	-	-	97,928	97,928
LAJAS	339	-	-	-	-	91,456	91,456
LARES	340	-	-	-	-	101,115	101,115

**Exhibit 2**  
**Summary of Outstanding Municipality Special Law Accounts Receivable**  
**As of June 30, 2010**

<u>Municipality</u>	<u>#</u>	<u>2002-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>	<u>COLA Cost Balance</u> <u>in Prior Years</u>	<u>Total</u>
LAS MARIAS	341	-	-	-	68,331	-	68,331
LAS PIEDRAS	342	-	-	-	4,270	-	4,270
LOIZA	343	-	-	-	40,448	-	40,448
LUQUILLO	344	-	-	-	-	-	-
MANATI	345	-	-	-	6,119	-	6,119
MARICAO	346	98,326	53,033	60,261	66,703	3,906	282,229
MALNABO	347	228,497	99,559	102,044	116,139	-	546,239
MAYAGUEZ	348	461,831	455,664	487,269	552,870	-	1,957,634
MOCA	349	-	-	-	-	-	-
MOROVIS	350	84,837	22,152	-	184,731	-	291,720
NAGUABO	351	-	2,324	-	10,588	-	12,913
NARANJITO	352	-	-	-	96,860	-	96,860
OROCOVIS	353	-	-	-	40,745	-	40,745
PATILLAS	354	88,378	72,487	79,882	86,464	-	327,210
PENUELAS	355	-	-	-	148,370	-	148,370
PONCE	356	518,438	-	725,509	779,971	-	2,023,919
PONCE MUELLE	379	-	-	-	-	-	-
QUEBRADILLAS	357	-	-	-	-	-	-
RINCON	358	-	-	-	-	-	-
RIO GRANDE	359	60,304	118,262	117,753	146,272	-	442,591
SABANA GRANDE	360	-	47,334	-	75,555	-	122,890
SALINAS	361	89,670	109,130	98,120	117,491	-	414,410
SAN GERMAN	362	0	-	149,962	168,999	-	318,961
SAN JUAN	363	1,922,228	4,796,915	5,232,328	5,411,655	-	17,363,126
SAN LORENZO	364	-	-	-	-	-	-
SAN SEBASTIAN	365	368,884	184,473	195,187	220,342	-	968,885
SANTA ISABEL	366	156,986	85,453	88,735	100,450	-	431,624
TOA ALTA	367	-	0	100,516	110,702	-	211,219
TOA BAJA	368	-	-	-	-	-	-
TRUJILLO ALTO	369	-	-	-	-	-	-
UTUADO	370	-	101,469	-	184,574	-	286,043
VEGA ALTA	371	-	-	-	-	-	-
VEGA BAJA	372	3,476	-	155,074	173,825	-	332,376
VIEQUES	373	-	-	-	81,454	-	81,454
VILLALBA	374	-	-	-	2,800	-	2,800
YABUCOA	375	-	-	87,809	105,972	-	193,781
YAUCOA	376	-	-	71,950	168,170	-	240,130
<b>Total Municipality</b>		<b>\$ 4,204,720</b>	<b>\$ 6,154,034</b>	<b>\$ 8,094,121</b>	<b>\$ 12,023,471</b>	<b>\$ 3,906</b>	<b>\$ 30,480,253</b>

Exhibit 2  
Summary of Outstanding Public Corporation Special Law Accounts Receivable  
As of June 30, 2010

Corporations	#	2002-2007		2007-2008		2008-2009		2009-2010		COLA Cost Balance		Total
		\$	\$	\$	\$	\$	\$	\$	\$	in Prior Years	\$	
ADM. DE ASUNTOS FEDERALES	112	-	-	-	-	-	-	-	-	-	-	-
ASEM	115	3,384,895	-	2,534,629	-	2,533,083	-	2,435,106	-	2,516,515	-	13,404,228
JUNTA RETIRO PARA MAESTRO	116	-	-	-	-	-	-	-	-	46,133	-	46,133
COMISION SEGURIDAD EN EL TRANSITO	123	-	-	-	-	-	-	13,033	-	-	-	13,033
CORP. FOND. SEG. ESTADO	163	1,027,073	-	-	-	-	-	-	-	-	-	1,027,073
CIA. DE PARQUES NACIONALES DE PR	174	-	-	7,783,447	-	332,777	-	454,349	-	-	-	787,126
A.A.A.	201	-	-	360,890	-	7,241,263	-	6,639,442	-	-	-	21,664,152
AUT. EDIFICIO PUBLICOS	203	-	-	-	-	1,197,217	-	1,156,694	-	-	-	2,714,801
AEE	204	-	-	-	-	-	-	-	-	-	-	-
A.M.A.	205	-	-	591,626	-	1,420,982	-	1,626,817	-	-	-	3,639,425
AUT. PUERTOS	206	953,936	-	1,623,449	-	1,540,172	-	1,597,859	-	-	-	5,715,416
AUT. DE TIERRAS	207	-	-	-	-	-	-	321,923	-	-	-	321,923
AUT. CARRETERAS	208	-	-	-	-	-	-	-	-	-	-	-
AUT. NAVIERAS DE PR	209	-	-	-	-	2,246,007	-	2,058,580	-	-	-	4,304,587
AUT. DESP. SOLIDOS	210	141,621	-	90,642	-	87,676	-	76,270	-	-	-	396,209
ADM. TERRENOS	211	60,040	-	-	-	-	-	124,428	-	-	-	184,469
CORP. CENTRO DE BELLAS ARTES	212	-	-	-	-	-	-	1,885	-	-	-	1,885
A.D.T.	213	254,956	-	83,621	-	454,207	-	202,368	-	-	-	995,152
A.C.A.A.	214	21,298	-	-	-	-	-	477,740	-	-	-	499,039
CORP. ARTES MUSICALES	217	-	-	-	-	-	-	1,589	-	-	-	1,589
AEELA	218	-	-	-	-	-	-	5,494	-	-	-	5,494
BCO. GUB. FOMENTO	219	-	-	-	-	-	-	-	-	-	-	-
BANCO FINANCIAMIENTO VIVIENDA	220	-	-	-	-	-	-	26,245	-	-	-	26,245
CIA. COMERCIO Y EXPORTACION	221	-	-	-	-	-	-	81,414	-	-	-	81,414
CIA. DE FOMENTO INDUSTRIAL	222	-	-	-	-	-	-	1,226,695	-	-	-	1,226,695
CIA DE TURISMO	224	-	-	-	-	-	-	-	-	-	-	-
CENTRO CARDIOVASCULAR	227	-	-	-	-	-	-	38,920	-	-	-	38,920
COSSEC	228	-	-	-	-	-	-	12,871	-	23,345	-	151,194
CORP. AZUCARERA	229	-	-	58,178	-	56,800	-	527,039	-	228,643	-	2,759,253
NEGOCIADO SEG. EMPLEO	232	911,309	-	559,875	-	532,387	-	-	-	83,381	-	83,381
A.C.D. CULEBRA	235	-	-	-	-	-	-	-	-	-	-	-
SERV. EXT. AGRICOLA	236	-	-	-	-	-	-	-	-	3,974	-	3,974
FIDEIC. PARQ. NACIONALES	238	-	-	-	-	10,261	-	14,850	-	-	-	25,111
CENTRO DE ESTUDIO ESPECIALES GEN. GOBIERNO	239	-	-	-	-	-	-	-	-	-	-	-
ASD. AGROPECUARIO	241	251,013	-	-	-	340,934	-	1,039,348	-	-	-	1,631,294
OFICINA ETICA GUBERNAMENTAL	242	-	-	-	-	-	-	-	-	-	-	-
INSTITUTO MEDICINA FORENSE	243	-	-	-	-	-	-	44,214	-	-	-	44,214
BCO. DES. ECONOMICO	245	-	-	-	-	-	-	-	-	-	-	-
C. EMP. ADIESTRAMIENTO Y TRAB.	248	-	-	14,082	-	28,325	-	33,176	-	-	-	75,583
CORPORACION DIFUSION PUBLICA	249	-	-	-	-	-	-	1,127	-	-	-	1,127
PANEL. FIS. INDEP.	250	-	-	-	-	-	-	-	-	-	-	-
CONSEJO DE DESARROLLO OCUPACIONAL	253	-	-	-	-	-	-	12,709	-	-	-	12,709

Exhibit 2  
Summary of Outstanding Public Corporation Special Law Accounts Receivable  
As of June 30, 2010

Corporations	#	2002-2007	2007-2008	2008-2009	2009-2010	COLA Cost Balance	
						In Prior Years	Total
CORPORACION DE SEGUROS AGRICOLAS	270	-	-	166,794	-	-	166,794
FID.INST GUARDIA NACIONAL	271	-	4,588	3,530	-	-	8,118
ESCUELA ARTES PLASTICA	272	-	1,410	1,767	8,014	-	11,192
CENTRO RECAUDACIONES INGRESOS MUN.	279	-	-	-	-	-	-
ADM. SEGUROS DE SALUD	292	-	-	-	400	-	400
CONSEJO EDUCACION SUPERIOR	293	-	-	-	-	-	-
CONSERVATORIO DE MUSICA	295	-	-	-	16,087	-	16,087
JUNTA DE GOBIERNO 911	296	-	-	-	-	-	-
SALUD CORRECCIONAL	417	-	-	-	-	-	-
AUTORIDAD TRANSPORTE MARITIMO	502	-	-	-	2,000	-	2,000
Total Corporations		\$ 7,006,140 \$	\$ 13,706,439 \$	\$ 18,194,183 \$	\$ 20,278,687 \$	\$ 2,901,991 \$	\$ 62,087,441



# Exhibit 3

**Exhibit 3**

**Employees Retirement System of Puerto Rico  
Detailed Cost Analysis by Special Law (2003-2004)**

	<u>Estimated OGP</u> <u>2003 - 2004</u>	<u>Estimated</u> <u>Corporations</u> <u>2003 - 2004</u>	<u>Estimated Municipalities</u> <u>2003 - 2004</u>	<u>Total Estimated</u> <u>Special Laws</u> <u>2003 - 2004</u>
<b>COLA</b>				
Act No. 10, Year 1992	\$ 4,070,000	\$ -	\$ -	\$ 4,070,000
Act No. 207, Year 1995	-	1,531,885	407,777	1,939,662
Act No. 40, Year 2001	20,625,000	2,649,257	766,032	24,040,289
Act No. 157, Year 2003	-	-	441,240	441,240
Act No. 35, Year 2007	-	-	-	-
Act No. 41, Year 2001	372,000	-	-	372,000
Act No. 134, Year 1996	401,000	-	-	401,000
Act No. 221, Year 1998	-	2,307,682	-	2,307,682
<b>Total COLA</b>	<b>25,468,000</b>	<b>6,488,824</b>	<b>1,615,049</b>	<b>33,571,872</b>
<b>Christmas Bonus</b>				
Act No. 109, Year 1997	19,528,000	-	-	19,528,000
Act No. 159, Year 2003	-	1,412,300	965,600	2,377,900
Act No. 433, Year 2004 and Act No. 144, Year 2005	-	-	-	-
Act No. 98, Year 1980 and Act No. 14, Year 1987	414,000	-	-	414,000
<b>Total Christmas Bonus</b>	<b>19,942,000</b>	<b>1,412,300</b>	<b>965,600</b>	<b>22,319,900</b>
<b>Widows</b>				
Act No. 158, Year 2003	6,431,500	928,703	347,496	7,707,700
Act No. 169, Year 1968	5,019,000	-	-	5,019,000
Act No. 2, Year 1965	75,000	-	-	75,000
Act No. 82, Year 1941	24,000	-	-	24,000
Act No. 135, Year 1975	-	-	-	-
Act No. 33, Year 2002 -Jaime Benítez Widow Benefit	20,000	-	-	20,000
<b>Total Widows</b>	<b>11,569,500</b>	<b>928,703</b>	<b>347,496</b>	<b>12,845,700</b>
<b>Medical Plan</b>				
Act No. 95, Year 1963	45,347,968	-	-	45,347,968
Act No. 155, Year 2003	6,030,000	1,412,700	965,500	8,408,200
<b>Total Medical Plan</b>	<b>51,377,968</b>	<b>1,412,700</b>	<b>965,500</b>	<b>53,756,168</b>
<b>Others</b>				
Act No. 124, Year 1993 - Pension increase	417,000	-	-	417,000
Act No. 127, Year 1958 - Benefits for high-risk participants	16,664,000	-	-	16,664,000
Act No. 208, Year 2000 - Difference between \$200 increase or \$1,000, whichever is lower	5,000,000	-	-	5,000,000
Act No. 37, Year 1941 - Summer bonus	8,083,000	-	-	8,083,000
Act No. 27, Year 1955 (Amended by Act 11, Year 1986) - Increase in death benefits	3,000	-	-	3,000
Act No. 524, Year 2004 - \$250 increase in death benefits and Act No. 548, Year	-	-	-	-
Act No. 23, Year 1983 - Pension increase < \$3,600	1,436,000	-	-	1,436,000
Act No. 156, Year 1941 - \$300 minimum pension increase	6,500,000	403,536	1,998,129	8,901,666
Act No. 72, Year 1956 - Cultural travel loans (ASR)	270,000	-	-	270,000
Act No. 6 and 7, Year 1950 - Benefits for participants of mass migration	11,000	-	-	11,000
<b>Total Others</b>	<b>38,384,000</b>	<b>403,536</b>	<b>1,998,129</b>	<b>40,785,666</b>
<b>Total Special Laws</b>	<b>\$ 146,741,468</b>	<b>\$ 10,646,063</b>	<b>\$ 5,891,775</b>	<b>\$ 163,279,306</b>

**Exhibit 3**  
**Employees Retirement System of Puerto Rico**  
**Detailed Cost Analysis by Special Law (2004-2005)**

	<u>Estimated OGP</u> <u>2004 - 2005</u>	<u>Estimated</u> <u>Corporations</u> <u>2004 - 2005</u>	<u>Estimated Municipalities</u> <u>2004 - 2005</u>	<u>Total Estimated</u> <u>Special Laws</u> <u>2004 - 2005</u>
<b>COLA</b>				
Act No. 10, Year 1992	\$ 4,212,000	\$ -	\$ -	\$ 4,212,000
Act No. 207, Year 1995	-	1,339,947	361,372	1,701,319
Act No. 40, Year 2001	24,262,000	3,031,842	828,098	28,121,940
Act No. 157, Year 2003	-	3,194,452	852,990	4,047,442
Act No. 35, Year 2007	-	-	-	-
Act No. 41, Year 2001	372,000	-	-	372,000
Act No. 134, Year 1996	401,000	-	-	401,000
Act No. 221, Year 1998	-	2,326,406	-	2,326,406
<b>Total COLA</b>	<b>29,247,000</b>	<b>9,892,647</b>	<b>2,042,460</b>	<b>41,182,107</b>
<b>Christmas Bonus</b>				
Act No. 109, Year 1997	19,549,000	-	-	19,549,000
Act No. 159, Year 2003	-	1,434,100	985,300	2,419,400
Act No. 433, Year 2004 and Act No. 144, Year 2005	-	-	-	-
Act No. 98, Year 1980 and Act No. 14, Year 1987	414,000	-	-	414,000
<b>Total Christmas Bonus</b>	<b>19,963,000</b>	<b>1,434,100</b>	<b>985,300</b>	<b>22,382,400</b>
<b>Widows</b>				
Act No. 158, Year 2003	12,663,000	1,234,898	455,621	14,353,519
Act No. 169, Year 1968	5,019,000	-	-	5,019,000
Act No. 2, Year 1965	60,000	-	-	60,000
Act No. 82, Year 1941	24,000	-	-	24,000
Act No. 135, Year 1975	-	-	-	-
Act No. 33, Year 2002 - Jaime Benitez Widow Benefit	20,000	-	-	20,000
<b>Total Widows</b>	<b>17,786,000</b>	<b>1,234,898</b>	<b>455,621</b>	<b>19,476,519</b>
<b>Medical Plan</b>				
Act No. 95, Year 1963	60,000,000	-	-	60,000,000
Act No. 155, Year 2003	6,030,000	1,433,800	985,500	8,449,300
<b>Total Medical Plan</b>	<b>66,030,000</b>	<b>1,433,800</b>	<b>985,500</b>	<b>68,449,300</b>
<b>Others</b>				
Act No. 124, Year 1993 - Pension increase	426,000	-	-	426,000
Act No. 127, Year 1958 - Benefits for high-risk participants	16,664,000	-	-	16,664,000
Act No. 208, Year 2000 - Difference between \$200 increase or \$1,000, whichever is lower	5,000,000	-	-	5,000,000
Act No. 37, Year 1941 - Summer bonus	8,083,000	-	-	8,083,000
Act No. 27, Year 1955 (Amended by Act 11, Year 1986) - Increase in death benefits	3,000	-	-	3,000
Act No. 524, Year 2004 - \$250 increase in death benefits and Act No. 548, Year	398,750	-	-	398,750
Act No. 23, Year 1983 - Pension increase < \$3,600	1,436,000	-	-	1,436,000
Act No. 156, Year 1941 - \$300 minimum pension increase	13,276,000	779,192	3,674,646	17,729,838
Act No. 72, Year 1956 - Cultural travel loans (ASR)	372,000	-	-	372,000
Act No. 6 and 7, Year 1950 - Benefits for participants of mass migration	12,000	-	-	12,000
<b>Total Others</b>	<b>45,670,750</b>	<b>779,192</b>	<b>3,674,646</b>	<b>50,124,588</b>
<b>Total Special Laws</b>	<b>\$ 178,696,750</b>	<b>\$ 14,774,637</b>	<b>\$ 8,143,526</b>	<b>\$ 201,614,913</b>

**Exhibit 3**  
**Employees Retirement System of Puerto Rico**  
**Detailed Cost Analysis by Special Law (2005-2006)**

	<u>Estimated OGP</u> <u>2005 - 2006</u>	<u>Estimated</u> <u>Corporations</u> <u>2005 - 2006</u>	<u>Estimated Municipalities</u> <u>2005 - 2006</u>	<u>Total Estimated</u> <u>Special Laws</u> <u>2005 - 2006</u>
<b>COLA</b>				
Act No. 10, Year 1992	\$ 4,212,000	\$ -	\$ -	\$ 4,212,000
Act No. 207, Year 1995	-	1,313,605	351,995	1,665,599
Act No. 40, Year 2001	24,262,000	3,032,595	813,040	28,107,635
Act No. 157, Year 2003	-	3,123,329	837,477	3,960,806
Act No. 35, Year 2007	-	-	-	-
Act No. 41, Year 2001	372,000	-	-	372,000
Act No. 134, Year 1996	401,000	-	-	401,000
Act No. 221, Year 1998	-	2,034,484	-	2,034,484
<b>Total COLA</b>	<b>29,247,000</b>	<b>9,504,013</b>	<b>2,002,511</b>	<b>40,753,524</b>
<b>Christmas Bonus</b>				
Act No. 109, Year 1997	19,549,000	-	-	19,549,000
Act No. 159, Year 2003	-	1,479,700	1,005,900	2,485,600
Act No. 433, Year 2004 and Act No. 144, Year 2005	-	1,479,700	1,004,600	2,484,300
Act No. 98, Year 1980 and Act No. 14, Year 1987	414,000	-	-	414,000
<b>Total Christmas Bonus</b>	<b>19,963,000</b>	<b>2,959,400</b>	<b>2,010,500</b>	<b>24,932,900</b>
<b>Widows</b>				
Act No. 158, Year 2003	12,663,000	1,038,666	415,298	14,116,964
Act No. 169, Year 1968	4,600,000	-	-	4,600,000
Act No. 2, Year 1965	60,000	-	-	60,000
Act No. 82, Year 1941	24,000	-	-	24,000
Act No. 135, Year 1975	-	-	-	-
Act No. 33, Year 2002 - Jaime Benitez Widow Benefit	20,000	-	-	20,000
<b>Total Widows</b>	<b>17,367,000</b>	<b>1,038,666</b>	<b>415,298</b>	<b>18,820,964</b>
<b>Medical Plan</b>				
Act No. 95, Year 1963	60,000,000	-	-	60,000,000
Act No. 155, Year 2003	6,030,000	1,479,700	1,006,200	8,515,900
<b>Total Medical Plan</b>	<b>66,030,000</b>	<b>1,479,700</b>	<b>1,006,200</b>	<b>68,515,900</b>
<b>Others</b>				
Act No. 124, Year 1993 - Pension increase	426,000			426,000
Act No. 127, Year 1958 - Benefits for high-risk participants	16,684,000			16,684,000
Act No. 208, Year 2000 - Difference between \$200 increase or \$1,000, whichever is lower	5,000,000			5,000,000
Act No. 37, Year 1941 - Summer bonus	8,083,000			8,083,000
Act No. 27, Year 1955 (Amended by Act 11, Year 1986) - Increase in death benefits	3,000			3,000
Act No. 524, Year 2004 - \$250 increase in death benefits and				
Act No. 548, Year	399,000			399,000
Act No. 23, Year 1983 - Pension increase < \$3,600	1,436,000			1,436,000
Act No. 156, Year 1941 - \$300 minimum pension increase	13,276,000	708,789	3,487,229	17,472,017
Act No. 72, Year 1956 - Cultural travel loans (ASR)	372,000			372,000
Act No. 6 and 7, Year 1950 - Benefits for participants of mass migration	12,000			12,000
Additional Assignment	42,900,000			42,900,000
<b>Total Others</b>	<b>88,591,000</b>	<b>708,789</b>	<b>3,487,229</b>	<b>92,787,017</b>
<b>Total Special Laws</b>	<b>\$ 221,198,000</b>	<b>\$ 15,690,567</b>	<b>\$ 8,921,738</b>	<b>\$ 245,810,305</b>

**Exhibit 3**

**Employees Retirement System of Puerto Rico  
Detailed Cost Analysis by Special Law (2006-2007)**

	<u>Estimated OGP</u> <u>2006 - 2007</u>	<u>Estimated</u> <u>Corporations</u> <u>2006 - 2007</u>	<u>Estimated Municipalities</u> <u>2006 - 2007</u>	<u>Total Estimated</u> <u>Special Laws</u> <u>2006 - 2007</u>
<b>COLA</b>				
Act No. 10, Year 1992	\$ 4,203,000	\$ -	\$ -	\$ 4,203,000
Act No. 207, Year 1995	-	972,817	274,108	1,246,925
Act No. 40, Year 2001	21,717,000	2,492,896	771,302	24,981,198
Act No. 157, Year 2003	-	4,070,211	1,246,151	5,316,362
Act No. 35, Year 2007	-	-	-	-
Act No. 41, Year 2001	500,000	-	-	500,000
Act No. 134, Year 1996	415,000	-	-	415,000
Act No. 221, Year 1998	-	1,574,730	-	1,574,730
<b>Total COLA</b>	<b>26,835,000</b>	<b>9,110,655</b>	<b>2,291,561</b>	<b>38,237,216</b>
<b>Christmas Bonus</b>				
Act No. 109, Year 1997	28,200,000	-	-	28,200,000
Act No. 159, Year 2003	-	1,448,400	981,200	2,429,600
Act No. 433, Year 2004 and Act No. 144, Year 2005	-	1,448,400	982,500	2,430,900
Act No. 98, Year 1980 and Act No. 14, Year 1987	414,000	-	-	414,000
<b>Total Christmas Bonus</b>	<b>28,614,000</b>	<b>2,896,800</b>	<b>1,963,700</b>	<b>33,474,500</b>
<b>Widows</b>				
Act No. 158, Year 2003	9,513,000	1,038,666	414,213	10,965,878
Act No. 169, Year 1968	4,600,000	-	-	4,600,000
Act No. 2, Year 1965	60,000	-	-	60,000
Act No. 82, Year 1941	24,000	-	-	24,000
Act No. 135, Year 1975	-	-	-	-
Act No. 33, Year 2002 - Jaime Benitez Widow Benefit	20,000	-	-	20,000
<b>Total Widows</b>	<b>14,217,000</b>	<b>1,038,666</b>	<b>414,213</b>	<b>15,669,878</b>
<b>Medical Plan</b>				
Act No. 95, Year 1963	84,500,000	-	-	84,500,000
Act No. 155, Year 2003	6,400,000	1,448,400	980,900	8,829,300
<b>Total Medical Plan</b>	<b>90,900,000</b>	<b>1,448,400</b>	<b>980,900</b>	<b>93,329,300</b>
<b>Others</b>				
Act No. 124, Year 1993 - Pension increase	426,000	-	-	426,000
Act No. 127, Year 1958 - Benefits for high-risk participants	17,000,000	-	-	17,000,000
Act No. 208, Year 2000 - Difference between \$200 increase or \$1,000, whichever is lower	6,000,000	-	-	6,000,000
Act No. 37, Year 1941 - Summer bonus	8,880,000	-	-	8,880,000
Act No. 27, Year 1955 (Amended by Act 11, Year 1986) - Increase in death benefits	3,000	-	-	3,000
Act No. 524, Year 2004 - \$250 increase in death benefits and	300,000	-	-	300,000
Act No. 548, Year	1,436,000	-	-	1,436,000
Act No. 23, Year 1983 - Pension increase < \$3,600	12,760,000	700,112	3,433,883	16,893,995
Act No. 156, Year 1941 - \$300 minimum pension increase	650,000	-	-	650,000
Act No. 72, Year 1956 - Cultural travel loans (ASR)	12,000	-	-	12,000
Act No. 6 and 7, Year 1950 - Benefits for participants of mass migration	12,000	-	-	12,000
<b>Total Others</b>	<b>47,467,000</b>	<b>700,112</b>	<b>3,433,883</b>	<b>51,600,995</b>
<b>Total Special Laws</b>	<b>\$ 208,033,000</b>	<b>\$ 15,194,632</b>	<b>\$ 9,084,257</b>	<b>\$ 232,311,890</b>

**Exhibit 3**  
**Employees Retirement System of Puerto Rico**  
**Detailed Cost Analysis by Special Law (2007-2008)**

	<u>Estimated OGP</u> <u>2007 - 2008</u>	<u>Estimated</u> <u>Corporations</u> <u>2007 - 2008</u>	<u>Estimated Municipalities</u> <u>2007 - 2008</u>	<u>Total Estimated</u> <u>Special Laws</u> <u>2007 - 2008</u>
<b>COLA</b>				
Act No. 10, Year 1992	\$ 4,267,000	\$ -	\$ -	\$ 4,267,000
Act No. 207, Year 1995	-	1,156,530	418,263	1,574,792
Act No. 40, Year 2001	41,567,000	4,458,409	1,415,432	47,440,841
Act No. 157, Year 2003	-	4,519,890	1,521,935	6,041,825
Act No. 35, Year 2007	-	5,537,768	1,641,943	7,179,710
Act No. 41, Year 2001	597,000	-	-	597,000
Act No. 134, Year 1996	489,000	-	-	489,000
Act No. 221, Year 1998	-	1,749,974	-	1,749,974
<b>Total COLA</b>	<b>46,920,000</b>	<b>17,422,570</b>	<b>4,997,572</b>	<b>69,340,143</b>
<b>Christmas Bonus</b>				
Act No. 109, Year 1997	28,200,000	-	-	28,200,000
Act No. 159, Year 2003	-	1,717,700	1,097,500	2,815,200
Act No. 433, Year 2004 and Act No. 144, Year 2005	-	1,717,700	1,097,500	2,815,200
Act No. 98, Year 1980 and Act No. 14, Year 1987	414,000	-	-	414,000
<b>Total Christmas Bonus</b>	<b>28,614,000</b>	<b>3,435,400</b>	<b>2,195,000</b>	<b>34,244,400</b>
<b>Widows</b>				
Act No. 158, Year 2003	7,326,000	1,018,372	368,911	8,713,283
Act No. 169, Year 1968	4,600,000	-	-	4,600,000
Act No. 2, Year 1965	51,000	-	-	51,000
Act No. 82, Year 1941	12,000	-	-	12,000
Act No. 135, Year 1975	-	-	-	-
Act No. 33, Year 2002 - Jaime Benitez Widow Benefit	20,000	-	-	20,000
<b>Total Widows</b>	<b>12,009,000</b>	<b>1,018,372</b>	<b>368,911</b>	<b>13,396,283</b>
<b>Medical Plan</b>				
Act No. 95, Year 1963	87,500,000	-	-	87,500,000
Act No. 155, Year 2003	6,309,000	1,530,638	921,786	8,761,424
<b>Total Medical Plan</b>	<b>93,809,000</b>	<b>1,530,638</b>	<b>921,786</b>	<b>96,261,424</b>
<b>Others</b>				
Act No. 124, Year 1993 - Pension increase	406,000	-	-	406,000
Act No. 127, Year 1958 - Benefits for high-risk participants	16,789,000	-	-	16,789,000
Act No. 208, Year 2000 - Difference between \$200 increase or \$1,000, whichever is lower	5,587,000	-	-	5,587,000
Act No. 37, Year 1941 - Summer bonus	9,483,000	-	-	9,483,000
Act No. 27, Year 1955 (Amended by Act 11, Year 1986) - Increase in death benefits	1,000	-	-	1,000
Act No. 524, Year 2004 - \$250 increase in death benefits and Act No. 548, Year	236,000	-	-	236,000
Act No. 23, Year 1983 - Pension increase < \$3,600	1,399,000	-	-	1,399,000
Act No. 156, Year 1941 - \$300 minimum pension increase	12,401,000	300,873	1,070,404	13,772,277
Act No. 72, Year 1956 - Cultural travel loans (ASR)	403,000	-	-	403,000
Act No. 6 and 7, Year 1950 - Benefits for participants of mass migration	3,000	-	-	3,000
<b>Total Others</b>	<b>46,708,000</b>	<b>300,873</b>	<b>1,070,404</b>	<b>48,079,277</b>
<b>Total Special Laws</b>	<b>\$ 228,060,000</b>	<b>\$ 23,707,853</b>	<b>\$ 9,553,673</b>	<b>\$ 261,321,526</b>

**Exhibit 3**

**Employees Retirement System of Puerto Rico  
Detailed Cost Analysis by Special Law (2008-2009)**

	<u>Estimated OGP</u> <u>2008 - 2009</u>	<u>Estimated</u> <u>Corporations</u> <u>2008 - 2009</u>	<u>Estimated Municipalities</u> <u>2008 - 2009</u>	<u>Total Estimated</u> <u>Special Laws</u> <u>2008 - 2009</u>
<b>COLA</b>				
Act No. 10, Year 1992	\$ 5,959,000	\$ -	\$ -	\$ 5,959,000
Act No. 207, Year 1995	-	972,917	360,334	1,333,251
Act No. 40, Year 2001	33,990,000	4,591,950	1,316,298	39,898,248
Act No. 157, Year 2003	-	4,642,821	1,397,653	6,040,474
Act No. 35, Year 2007	-	6,195,013	2,985,579	9,180,592
Act No. 41, Year 2001	691,000	-	-	691,000
Act No. 134, Year 1996	500,000	-	-	500,000
Act No. 221, Year 1998	-	1,552,509	-	1,552,509
<b>Total COLA</b>	<b>41,140,000</b>	<b>17,955,211</b>	<b>6,059,864</b>	<b>65,155,075</b>
<b>Christmas Bonus</b>				
Act No. 109, Year 1997	37,650,000	-	-	37,650,000
Act No. 159, Year 2003	-	1,191,100	1,810,414	3,001,514
Act No. 433, Year 2004 and Act No. 144, Year 2005	-	1,777,205	1,192,500	2,969,705
Act No. 98, Year 1980 and Act No. 14, Year 1987	414,000	-	-	414,000
<b>Total Christmas Bonus</b>	<b>38,064,000</b>	<b>2,968,305</b>	<b>3,002,914</b>	<b>44,035,219</b>
<b>Widows</b>				
Act No. 158, Year 2003	7,500,000	589,860	168,425	8,258,285
Act No. 169, Year 1968	5,880,000	-	-	5,880,000
Act No. 2, Year 1965	51,000	-	-	51,000
Act No. 82, Year 1941	12,000	-	-	12,000
Act No. 135, Year 1975	-	-	-	-
<b>Total Widows</b>	<b>13,443,000</b>	<b>589,860</b>	<b>168,425</b>	<b>14,201,285</b>
<b>Medical Plan</b>				
Act No. 95, Year 1963	90,000,000	-	-	90,000,000
Act No. 155, Year 2003	7,552,000	2,062,867	1,206,200	10,821,067
<b>Total Medical Plan</b>	<b>97,552,000</b>	<b>2,062,867</b>	<b>1,206,200</b>	<b>100,821,067</b>
<b>Others</b>				
Act No. 124, Year 1993 - Pension increase	400,000			400,000
Act No. 127, Year 1958 - Benefits for high-risk participants	17,000,000			17,000,000
Act No. 208, Year 2000 - Difference between \$200 increase or \$1,000, whichever is lower	5,500,000			5,500,000
Act No. 37, Year 1941 - Summer bonus	10,200,000			10,200,000
Act No. 27, Year 1955 (Amended by Act 11, Year 1986) - Increase in death benefits	1,000			1,000
Act No. 524, Year 2004 - \$250 increase in death benefits and				
Act No. 548, Year	400,000			400,000
Act No. 23, Year 1983 - Pension increase < \$3,600	1,370,000			1,370,000
Act No. 156, Year 1941 - \$300 minimum pension increase	12,400,000	179,669	211,057	12,790,726
Act No. 72, Year 1956 - Cultural travel loans (ASR)	620,000			620,000
Act No. 6 and 7, Year 1950 - Benefits for participants of mass migration	3,000			3,000
<b>Total Others</b>	<b>47,894,000</b>	<b>179,669</b>	<b>211,057</b>	<b>48,284,726</b>
<b>Total Special Laws</b>	<b>\$ 238,093,000</b>	<b>\$ 23,755,911</b>	<b>\$ 10,648,460</b>	<b>\$ 272,497,371</b>

**Exhibit 3**

**Employees Retirement System of Puerto Rico  
Detailed Cost Analysis by Special Law (2009-2010)**

	<u>Estimated OGP</u> <u>2009 - 2010</u>	<u>Estimated</u> <u>Corporations</u> <u>2009 - 2010</u>	<u>Estimated Municipalities</u> <u>2009 - 2010</u>	<u>Total Estimated</u> <u>Special Laws</u> <u>2009 - 2010</u>
<b>COLA</b>				
Act No. 10, Year 1992	\$ 7,066,000	\$ -	\$ -	\$ 7,066,000
Act No. 207, Year 1995	-	1,354,292	425,209	1,779,501
Act No. 40, Year 2001	33,786,000	2,748,362	761,427	37,295,789
Act No. 157, Year 2003	-	3,693,387	914,145	4,607,532
Act No. 35, Year 2007	-	5,570,044	2,268,385	7,838,429
Act No. 41, Year 2001	629,000	-	-	629,000
Act No. 134, Year 1996	462,000	-	-	462,000
Act No. 221, Year 1998	-	1,552,448	-	1,552,448
<b>Total COLA</b>	<b>41,943,000</b>	<b>14,918,533</b>	<b>4,369,166</b>	<b>61,230,699</b>
<b>Christmas Bonus</b>				
Act No. 109, Year 1997	34,862,000	-	-	34,862,000
Act No. 159, Year 2003	-	1,728,300	1,343,100	3,071,400
Act No. 433, Year 2004 and Act No. 144, Year 2005	-	1,728,300	1,343,100	3,071,400
Act No. 98, Year 1980 and Act No. 14, Year 1987	414,000	-	-	414,000
<b>Total Christmas Bonus</b>	<b>35,276,000</b>	<b>3,456,600</b>	<b>2,686,200</b>	<b>41,418,800</b>
<b>Widows</b>				
Act No. 158, Year 2003	9,553,000	3,334,631	1,293,359	14,180,991
Act No. 169, Year 1968	8,481,000	-	-	8,481,000
Act No. 2, Year 1965	51,000	-	-	51,000
Act No. 82, Year 1941	12,000	-	-	12,000
Act No. 135, Year 1975	-	-	-	-
<b>Total Widows</b>	<b>18,097,000</b>	<b>3,334,631</b>	<b>1,293,359</b>	<b>22,724,991</b>
<b>Medical Plan</b>				
Act No. 95, Year 1963	85,755,000	-	-	85,755,000
Act No. 155, Year 2003	8,000,000	1,746,800	1,356,600	11,103,400
<b>Total Medical Plan</b>	<b>93,755,000</b>	<b>1,746,800</b>	<b>1,356,600</b>	<b>96,858,400</b>
<b>Others</b>				
Act No. 124, Year 1993 - Pension increase	386,000			386,000
Act No. 127, Year 1958 - Benefits for high-risk participants	17,000,000			17,000,000
Act No. 208, Year 2000 - Difference between \$200 increase or \$1,000, whichever is lower	6,153,000			6,153,000
Act No. 37, Year 1941 - Summer bonus	10,400,000			10,400,000
Act No. 27, Year 1955 (Amended by Act 11, Year 1986) - Increase in death benefits	-			-
Act No. 524, Year 2004 - \$250 increase in death benefits and Act No. 548, Year	473,000			473,000
Act No. 23, Year 1983 - Pension increase < \$3,600	1,328,000			1,328,000
Act No. 156, Year 1941 - \$300 minimum pension increase	11,559,000	425,610	1,928,038	13,912,648
Act No. 72, Year 1956 - Cultural travel loans (ASR)	521,000			521,000
Act No. 6 and 7, Year 1950 - Benefits for participants of mass migration	2,000			2,000
<b>Total Others</b>	<b>47,822,000</b>	<b>425,610</b>	<b>1,928,038</b>	<b>50,175,648</b>
<b>Total Special Laws</b>	<b>\$ 236,893,000</b>	<b>\$ 23,882,174</b>	<b>\$ 11,633,363</b>	<b>\$ 272,408,537</b>



# Exhibit 4

Exhibit 4

Select List of ERS Personnel (2004 - 2008)

Title / Position	2004	2005	2006	2007	2008	Relevant Area of Responsibility		
						Pension Obligation Bonds	Personal Loans	Accounts Receivable
ERS Board of Trustees (BOT)								
Alfredo Salazar Conde		X	X	X		X	X	
Angel A. Ortiz Garcia					X	X		
Angel M. Castillo Rodriguez			X	X		X	X	
Angel M. Castillo Rodriguez					X	X		
Angel M. Castillo Rodriguez		X				X		
Antonio Faria Soto								
Barbara Sanfey-Zaragoza								
Carlos J. Rosa Jimenez			X					
Debralee Carranza			X					
Emmalind Garcia Garcia								
Jorge Iñizary Herrans	X - pre 6/04			X - 8/29/07		X	X	
Jorge Iñizary Herrans					X	X		
Jose G. Davila Matos					X	X		
Juan A. Flores Galarza	X							
Juan C. Mendez Torres		X	X	X		X	X	
Luisa Herrera Jimenez	X - post 6/04	X						
Luisa Herrera Jimenez	X							
Luz Nabel Mendez Colon			X			X		
Marta Beltran Donas		X						
Maria Vera Ramirez				X	X	X	X	
Maria Vera Ramirez				X		X	X	
Robert E. Aquino Garcia		X	X			X		
Robert E. Aquino Garcia	X					X		
Robert E. Aquino Garcia					X	X		
Roberto E. Aquino Garcia				X	X	X	X	
Roberto Santiago Canosa								
Roberto Santiago Canosa		X	X			X		
Rosa Castro Rivera			X	X	X	X	X	
Rosa Castro Rivera			X	X		X	X	
Rosa Castro Rivera				X		X		
William Lockwood Bonet		X				X		
Representative from the Offices of the Board of Trustees	X	X	X	X	X	X		
Maritza Inde Figueroa								
General Counsel of the BOT								
Representative from the ERS Administration that participated in certain ERS BOT meetings					X - July 2008	X		X
Harold Gonzalez Rosado			X	X		X		
Jose L. Monroy Gonzalez			X	X		X	X	X
Jose L. Villafañe Parnoz								
Jose O. Reyes Portales					X			
Jose Sierra Morales	X					X	X	X
Juan Candel Alegria		X	X	X	X	X		
Luis Alvarez Miranda				X		X	X	X
Luis Garcia Lopez						X	X	
Maribel Marchand Castro	X					X		X
Minia Gonzalez Alvarez					X			X
Ramon Rodriguez Ortega	X							
Roberto Rivera Cruz		X	X					

Note:

2004 - 2009 information based on monthly meeting minutes of the Board of Trustees - ERS

Exhibit 4

Select List of GDB Personnel (2005 - 2008)

						Relevant Area of Responsibility		
Title / Position		2005	2006	2007	2008	Pension Obligation Bonds	Personal Loans	Accounts Receivable
<b>Board of Directors - GDB</b>								
Alfredo Salazar-Conde	Chairman	x	x	x - until 12/4/07		x		
Ana I. Vila-Davila	Member				x	x		
Armando Valdes Prieto	Member				x	x		
Ernesto A. Melendez-Perez	Member	x	x	x	x	x		
Ileana I. Fas-Pacheco	Member	x				x		
Jorge P. Silva-Puras	Member	x	x	x	x	x		
Jose F. Rodriguez-Parelló	Vice Chairman	x	x			x		
Jose G. Davila Matos	Member		x - as of 8/06	x	x	x		
Juan C. Mendez-Torres	Member	x	x	x		x		
Luis A. Aviles-Pagan	Vice Chairman			x	x	x		
Rafael F. Martinez-Margarida	Member	x	x	x		x		
Rafael F. Martinez-Margarida	Chairman			x - as of 12/07	x	x		
<b>Officers of the Board - GDB</b>								
Olga L. Ortiz-Guadalupe	Secretary	x	x	x	x	x		
Minia Gozalez-Alvarez	Assistant Secretary	x	x	x		x		
<b>Officers of the Bank - GDB</b>								
Alfredo Salazar-Conde	Acting President	x				x		
Alfredo Salazar-Conde	President		x	x - before 8/07		x		
Ana E. Torres	Assistant Vice President			x	x	x		
Hugo Diaz-Molini	Executive Vice President and Treasurer					x		
Jorge Irizarry-Herrans	Executive Vice President	x	x	x		x		
Jorge Irizarry-Herrans	Acting President	x	x			x		
Jorge Irizarry-Herrans	President			x - as of 8/07		x		
Jose G. Davila	Executive Vice President			x - as of 12/07	x	x		
Luis Alfaro Martinez	Vice President	x						
Minia Gozalez-Alvarez	Senior Vice President	x	x			x		
Minia Gozalez-Alvarez	Acting General Counsel and SVP		x - as of 6/06	x				
William Lockwood-Benet	President	x - resigned				x		

Notes

- (a) All 2005 designations based on M1010 - various resolutions
- (b) All 2006 designations based on M1032 - various resolutions
- (c) All 2007 designations based on M1049 - various resolutions
- (d) 2008 designations based on ERS meeting minutes and M1076 GDB BOD meeting minutes

Exhibit 4

Select List of Other Parties of Interest (2007 - 2008)

		Relevant Area of Responsibility						
	Role	2005	2006	2007	2008	Pension Obligation Bonds	Personal Loans	Accounts Receivable
Merrill Lynch 4 World Financial Center 250 Vessey Street, 9th Floor New York, NY 10080	Lead Bookrunner & Senior Manager			x	x	x		
UBS Financial Services Incorporated of PR 9th Floor American International Plaza 254 Muñoz Rivera Avenue San Juan, PR 00918	Lead Bookrunner & Senior Manager				x	x		
DEPFA Bank 623 Fifth Avenue 22nd Floor New York, NY 10022	Co-Senior Manager			x	x	x		
First Albany Capital One Penn Plaza, 42nd Floor New York, NY 10119	Co-Senior Manager			x	x	x		
UBS Investment Consultants of Puerto Rico / UBS PR Consulting	Investment Consultants			x	x	x		
Mesirow Financial 350 North Clark Street Chicago, IL 60610	Financial Advisor to GDB			x	x	x		
Fiddler Gonzalez and Rodríguez 254 Muñoz Rivera Ave. 6th Floor Hato Rey, Puerto Rico 00913	Bond Counsel			x	x	x		
O'Neill & Borges American International Plaza 250 Muñoz Rivera Ave., Suite 600 San Juan, Puerto Rico 00919-1813	Underwriter's Counsel			x	x	x		
Sidley Austin LLP 787 Seventh Avenue New York, NY 10019	Underwriter's Counsel			x	x	x		

Note:

2007 - 2008 information based on POB Timelines and Account Plan included in working papers provided by the GDB